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AN ANALYTICAL STUDY OF FDI IN INDIA (FROM 2000 TO 2019)

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ABSTRACT:

FDI has played a significant role in the growth and development of Indian economy. FDI play multidimensional role in the overall development. Sometimes domestically available capital is inadequate for the purpose of overall development of country. Foreign capital is seen as a way of filling in gaps between domestic saving and investment. India can attract much larger foreign investment than it has done in the past. The present study has focussed on the trends of FDI flow in India During 2000 to 2019 (up to March 2019)

The study also highlights country wise and sector wise approval of FDI inflow to India for the period 2000 to 2019 (up to March 2019).



KEYWORDS: FDI, Foreign Capital, Domestic Saving & Investment, Foreign Investment.

INTRODUCTION :

Foreign Direct Investment (FDI) is process which enables the resident of one country to directly invest their funds in another country and acquire ownership of assets and exercise control over the investment in terms of production, management, distribution, effective decision making, employment etc...."FDI is an international financial flow with the intension of an enterprise in a foreign country". Foreign investment is a means of making foreign resources available to a developing country.

Now, There are mainly three

types of Foreign Direct Investment namely (i) Horizontal Investment (ii) Vertical Investment (iii) Conglomerate Investment.

(i) Horizontal Investment: A Horizontal Investment would entail opening up the same business in a foreign country.

(ii) Vertical Investment: Vertical Investment is when a slightly differentiated business is established in a foreign country.

(iii) Conglomerate Investment: Conglomerate Investment is made even if the business is unrelated to its existing business.

Foreign Direct Investment (FDI) plays a significant role in

development of any economy as like India. Many countries like many incentives for attracting the foreign direct investment (FDI), Need of FDI depends upon saving and investment rate in any country. Foreign Direct Investment (FDI) acts as a bridge to fulfil the gap between investment and saving. In the process of economic development, Foreign capital helps to cover the domestic saving constraint and provide access to the superior technology that promote efficiency and productivity of the existing production capacity and generate new production opportunity.

FDI inflow routes: An Indian company may receive Foreign Direct Investment under the two routes as given under:

1. Automatic Route: FDI in sectors /activities to the extent permitted under the automatic route does not require any prior approval either of the Government or the Reserve Bank of India.

2. Government Route: FDI in activities not covered under the automatic route requires prior approval of the Government which are considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, and Ministry of Finance.

FDI is not permitted in the following industrial sectors:

- Arms and ammunition.
- Atomic Energy,
- Railway Transport.
- Coal and lignite.
- Mining of iron, manganese, chrome, gypsum, sulphur, gold, diamonds, copper, zinc.
- Lottery Business
- Gambling and Betting
- Business of Chit Fund
- Agricultural (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisciculture and cultivation of vegetables, mushrooms, etc. under controlled conditions and services related to agro and allied sectors) and Plantations activities (other than Tea Plantations) .
- Housing and Real Estate business.
- Trading in Transferable Development Rights (TDRs).
- Manufacture of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes

OBJECTIVES OF RESEARCH:

- a) What has India done till now to attract FDI.
- b) Which sectors attracts maximum FDI.
- C) Which countries are major source of FDI in India.

METHODOLOGY USED IN RESEARCH:

This research is a descriptive study in nature. In this study secondary source of data has been applied. The secondary data was collected from various books, journals, research papers and reports. Use different web site to collect data and report i.e

- i) Report of RBI
- ii) Report of the Department of Industrial Policy & Promotion (dipp)
- iii) Report of Ministry of Commerce and Industry etc.

DATA ANALYSIS AND INTERPRETATION**A. TOTAL FDI INFLOWS (from April, 2000 to March, 2019):**

TABLE NO. 1			
TOTAL FDI INFLOWS INTO INDIA (2000 TO 2019):			
TOTAL FDI INFLOWS (from April, 2000 to March, 2019)			
1	CUMULATIVE AMOUNT OF FDI INFLOWS (Equity inflows + 'Re-invested earnings' + 'Other capital')	Rs. 3,451,684 Crore	US 609,838 Million
2	CUMULATIVE AMOUNT OF FDI EQUITY INFLOWS (excluding, amount remitted through RBI's NRI Schemes)	Rs. 2,378,353 Crore	US 420,021 Million

Note: Figure are provisional

Source: FDI Statistics, Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, RBI bulletin 2019

B. SHARE OF TOP INVESTING COUNTRIES FDI EQUITY INFLOWS:

TABLE NO. 2				
SHARE OF TOP INVESTING COUNTRIES FDI EQUITY INFLOWS IN INDIA				
FROM FINANCIAL YEAR 2000-01 TO 2018-19				
Rank	Name of Country	Amount of Foreign Direct Investment Inflows		% age with Inflows
		(In Rs crore)	(In US\$ million)	
1	MAURITIUS	7,38,156.04	1,34,469.19	32.01
2	SINGAPORE	5,05,946.38	82,998.40	19.76
3	JAPAN	1,73,331.56	30,273.50	7.21
4	NETHERLANDS	1,62,251.09	27,352.32	6.51
5	U.K.	1,40,369.58	26,789.09	6.38
6	U.S.A.	1,46,372.00	25,555.99	6.08
7	GERMANY	65,477.24	11,707.82	2.79
8	CYPRUS	51,544.25	9,868.99	2.35
9	UAE	39,309.59	6,652.03	1.59
10	FRANCE	36,824.60	6,643.09	1.58
TOTAL FDI INFLOWS FROM ALL COUNTRIES *		20,59,582.33	3,62,310.42	

Note:(i) % age worked out in US\$ terms & FDI inflows received through FIPB/SIA+ RBI's Automatic Route + acquisition of existing shares only.

(ii) Figures are provisional.

Source: FDI Statistics, Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, RBI bulletin 2019

C. SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS:

TABLE NO. 3				
TOP SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS				
FROM FINANCIAL YEAR 2000-01 TO 2018-2019				
Rank	Sector	Amount of FDI Inflows		%age of Total Inflows
		(In Rs crore)	(In US\$ million)	
1	SERVICES SECTOR *	4,16,301.22	74,149.38	17.65
2	COMPUTER SOFTWARE & HARDWARE	2,21,756	37,237.89	8.87
3	TELECOMMUNICATIONS	1,88,248.86	32,825.79	7.82
4	CONSTRUCTION DEVELOPMENT **	1,19,613.96	25,045.80	5.96
5	TRADING	1,43,598.82	23,021.12	5.48
6	AUTOMOBILE INDUSTRY	1,23,988.58	21,386.65	5.09
7	CHEMICALS (OTHER THAN FERTILIZERS)	91,062.19	16,581.98	3.95
8	DRUGS & PHARMACEUTICALS	84,164.50	15,982.82	3.81
9	CONSTRUCTION (INFRASTRUCTURE) ACTIVITIES	93,872.77	14,805.17	3.52
10	POWER	77,889.36	14,315.77	3.41
CUMULATIVE TOTAL (from April, 2000 to March, 2019)		15,60,496.26	2,75,352.37	

Note: (i)* Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis,

** Construction development sector includes Townships, housing, built-up infrastructure and construction development projects

(ii) Cumulative Sector- wise FDI equity inflows (from April, 2000 to March, 2019) are at - Annex-'B'.

(iii) FDI Sectoral data has been revalidated / reconciled in line with the RBI, which reflects minor changes in the FDI figures(increase/decrease) as compared to the earlier published sectoral data.

(iv) Figures are provisional.

Source: FDI Statistics, Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, RBI bulletin 2019

D. FINANCIAL YEAR-WISE FDI INFLOWS DATA:**TABLE NO. 4
FINANCIAL YEAR-WISE FDI INFLOWS DATA FROM 2000-01 TO 2018-19**

		FOREIGN DIRECT INVESTMENT (FDI)						(Amount US \$ Million)
		EQUITY				FDI FLOWS INTO INDIA		
S.N	Financial Year (April to March)	RBI's Automatic Route/ Acquisition Route	Equity capital of unincorporated bodies #	Re-invested earnings +	Other capital +	Total FDI Flows	%age growth over previous year (in US\$ terms)	Investment by FII's Foreign Institutional Investors Fund (net)
FINANCIAL YEAR 2000-01 to 2018-19								
1	2000-01	2,339	61	1,350	279	4,029		1,847
2	2001-02	3,904	191	1,645.00	390	6130	(+) 52 %	1,505
3	2002-03	2,574	190	1,833.00	438	5035	(-) 18 %	377
4	2003-04	2,197	32	1,460.00	633	4322	(-) 14 %	10,918
5	2004-05	3,250	528	1,904.00	369	6051	(+) 40 %	8,686
6	2005-06	5,540	435	2,760.00	226	8961	(+) 48 %	9,926
7	2006-07	15,585	896	5,828.00	517	22826	(+) 155 %	3,225
8	2007-08	24,573	2,291	7,679.00	300	34843	(+) 53 %	20,328
9	2008-09	31,364	702	9,030.00	777	41873	(+) 20 %	(-) 15,017
10	2009-10	25,606	1,540	8,668.00	1,931	37745	(-) 10 %	29,048
11	2010-11	21,376	874	11,939	658	34847	(-) 08 %	29,422
12	2011-12	34,833	1,022	8,206	2,495	46556	(+) 34 %	16,812
13	2012-13	21,825	1,059	9,880	1,534	34298	(-) 26%	27,582
14	2013-14	24,299	975	8,978	1,794	36046	(+) 5%	5,009
15	2014-15	30,933	978	9,988	3,249	45148	(+) 25%	40,923
16	2015-16	40,001	1,111	10,413	4,034	55559	(+) 23%	(-) 4,016
17	2016-17(P)	43,478	1,223	12,343	3,176	60220	(+) 8%	7,735
18	2017-18(P)	44,857	664	12,542	2,911	60974	(+) 1%	22,165
19	2018-19(P)	44,366	693	13,570	5,746	64,375	(+) 6%	(-) 3587
CUMULATIVE TOTAL (from April, 2000 to March, 2019)		4,22,900	15,465	1,40,016	31,457	6,09,838		2,12,888

Source:

- (i) RBI's Bulletin February, 2019 dt.13.02.2019 (Table No. 34 – FOREIGN INVESTMENT INFLOWS).
(ii) Inflows under the acquisition of shares in March, 2011, August, 2011 & October, 2011, include net FDI on account of transfer of participating interest from Reliance Industries Ltd. to BP Exploration (Alpha).
(iii) RBI had included Swap of Shares of US\$ 3.1 billion under equity components during December 2006.
(iv) Monthly data on components of FDI as per expended coverage are not available. These data, therefore, are not comparable with FDI data for previous years.
(v) Figures updated by RBI up to December, 2018. Figures are provisional.
(vi) Data in respect of 'Re-invested earnings' & 'Other capital' are estimated as average of previous two years.
'#' Figures for equity capital of unincorporated bodies are estimates. (P) All figures are provisional

E. DPIIT's – FINANCIAL YEAR-WISE FDI EQUITY INFLOWS:**Table No. 5****FINANCIAL YEAR-WISE FDI EQUITY INFLOWS
FROM 2000-01 TO 2018-2019**

(As per DPIIT's FDI data base – equity capital components only):

SR.NO	FINANCIAL YEAR (APRIL TO MARCH)	AMOUNT OF FDI INFLOW		% age growth over previous year (in terms of US \$)
		In Rs Crores	In US\$ Million	
1	2000-01	10,733	2,463	
2	2001-02	18,654	4,065	(+) 65 %
3	2002-03	12,871	2,705	(-) 33 %
4	2003-04	10,064	2,188	(-) 19 %
5	2004-05	14,653	3,219	(+) 47 %
6	2005-06	24,584	5,540	(+) 72 %
7	2006-07	56,390	12,492	(+) 125 %
8	2007-08	98,642	24,575	(+) 97 %
9	2008-09	1,42,829	31,396	(+) 28 %
10	2009-10	1,23,120	25,834	(-) 18 %
11	2010-11	97,320	21,383	(-) 17 %
12	2011-12 [^]	1,65,146	35,121	(+) 64 %
13	2012-13	1,21,907	22,423	(-) 36 %
14	2013-14	1,47,518	24,299	(+) 8%
15	2014-15 #	1,81,682	29,737	(+) 22%
16	2015-16 #	2,62,322	40,001	(+) 35%
17	2016-17 #	2,91,696	43,478	(+) 9%
18	2017-18 #	2,88,889	44,857	(+) 3%
19	2018-19 #	3,09,867	44,366	(-) 1%
CUMULATIVE TOTAL (from April, 2000 to March, 2019)		23,78,887	4,20,142	

Note: (i) including amount remitted through RBI's-NRI Schemes (2000-2002).
(ii) FEDAI (Foreign Exchange Dealers Association of India) conversion rate from rupees to US dollar applied, on the basis of monthly average rate provided by RBI (DEPR), Mumbai.
Figures for the years 2014-15 to 2018-19 are provisional subject to reconciliation with RBI.
[^] Inflows for the month of March, 2012 are as reported by RBI, consequent to the adjustment made in the figures of March, '11, August, '11 and October, '11.

(As per DPIIT's FDI data base – equity capital components only):

CONCLUSION:

FDI in India has a significant role in the economic growth and development of India. FDI in India to various sectors can attain sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries. The inflow of FDI in service sectors and construction

and development sector, from April, 2000 to March, 2019 attained substantial sustained economic growth and development through creation of jobs in India.

Computer, Software & Hardware and Drugs & Pharmaceuticals sector were the other sectors to which attention was shown by Foreign Direct Investors (FDI). The other sectors in Indian economy the Foreign Direct Investors interest was, in fact has been quite poor.

FDI has helped to raise the output, productivity and employment in some sectors especially in service sector. Indian service sector is generating the proper employment options for skilled worker with high perks.

On the basis of above discussion, we conclude that there is need to attract FDI in the Indian economy. The market is still very much dependent on the bureaucracy and decisions are quite slow.

SUGGESTION:

It is important for countries to take measures to maximize their growth through more and more FDI inflows. Benefits from FDI could be maximized if efforts are concentrated on attracting long term productive FDI. To attract quality FDI, a developing country must ensure a sound macroeconomic environment which requires adequate infrastructural facilities, stability of exchange rate, political stability, strong administrative will, market perfection and control over inflation. Some suggestions regarding FDI inflows are summarized as under:

- 1) Government should invest more on skill education. Education system must inculcate the entrepreneurship so that the potential of abundant people may be utilized in a proper direction.
- 2) Bureaucratic corruption must be eradicated so that the gap between approval and actual FDI can be bridged.
- 3) Study also reveals that FDI promotes economic growth of a country through its positive influence on GDP, exports, reserves and employment. Thus India should give special attention towards creation of favourable environment to attract FDI to highest possible extent.
- 4) The present study has found a very little but positive impact of FDI on employment in the countries. Unemployment is the serious problem in India on account of large size of population. Though contribution of FDI in the generation of employment is not so sizeable as compared to its influence on other parameters of the economy.

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